



## Hail Cement

KSA Cement Sector | 2Q 2015 Preliminary Results | July 13, 2015

### 2Q15 review: Earnings miss estimates from scheduled plant shutdown; Maintain Buy

#### 2Q15 net profit misses SFC/consensus from plant shutdown and lower realized price:

Hail Cement reported 2Q15 net profit of SAR29m (-24% qoq, -37% yoy) which has missed SFC/consensus estimate by c.17%/25%. Operational performance was also softer than expected with gross profit/EBITDA/EBIT c.13%/13%/18% lower than our estimates. While cement volume of 488k tons (+7% yoy, +20% qoq, 1H15 cement volume of 894k tons is c.+7% yoy and broadly in-line with industry average growth) came marginally lower than our estimate, realized price was SAR204/ton (vs. SFC est SAR208/ton, c.-5% qoq, c.-8% yoy) implying pricing pressure continued in 2Q15. Having said that, while we estimate lower prices to have contributed to c.40% of the earnings miss, it seems that the larger part of the miss came from higher than expected one-off expenses related to the scheduled plant shutdown that lasted for about 3 weeks during May-June.

**Trades at 2015E P/E of 12.4x; Maintain Buy:** Ytd, Hail (c.-4%) has underperformed Tadawul cement index (c.-1%) and Tadawul (c.11%) and currently the stock trades at 2015E P/E of 12.4x which is at a modest discount to KSA Cement 2015E P/E 13.4x, GCC/MEA 13.3x and EM peers 14.7x. We consider this undemanding especially in the context of attractive dividend yield (c.6.4% for 2015E). Furthermore, as production increases, execution risk mitigates leading to improvement in earnings visibility and lowering of risk profile. Post publication of 2Q15 results, we maintain our Buy rating with an unchanged target price of SAR30.0/share.

SAR mn	2Q15A	2Q15E	% diff	Cons*	% dev	1Q15	% qoq	2Q14	% yoy
Volume (000tons)	488	495	-1%	Na	Na	406	20%	455	7%
Revenues	100	103	-3%	Na	Na	87	14%	101	-2%
Gross Profit	39	44	-13%	Na	Na	49	-22%	55	-30%
EBITDA	45	52	-13%	Na	Na	54	-16%	64	-29%
EBITDA Margin	46%	51%		Na	Na	62%		63%	
EBIT	30	36	-18%	Na	Na	39	-23%	48	-38%
Net Profit	29	35	-17%	38	-25%	38	-24%	46	-37%

Source: Company, Saudi Fransi Capital analysis, \* Bloomberg consensus

#### Rating Summary

Recommendation	Buy
Target price (SAR)	30.0
Upside/ (downside)	38%

#### Stock Details

Closing price*	SAR	21.8
Market capitalization	SAR mn	2,134
Shares outstanding	Mn	98
52-Week High	SAR	30.1
52-Week Low	SAR	18.5
Price chg. (3 months)	%	-2.6
EPS 2015E	SAR	1.75
Ticker (Reuters/ Bloomberg)	3001.SE	HCC AB

\*Price as of July 12, 2015

#### Key Shareholding (%)

Public	50.0
Other strategic shareholders	31.7
Al Mal Investment - Kuwait	6.1
Saudi Real Estate	6.1
Yamama Cement	6.1

Source: Tadawul

#### Key Ratios

	2015E	2016E
P/E (x)	12.4	11.8
EV/EBITDA (x)	9.3	9.1
Dividend yield (%)	6.4	6.9

Source: Company, Saudi Fransi Capital analysis

#### Stock price movement vs. TASI



Source: Tadawul

Sector Coverage

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### Recommendation Framework

**BUY:** The analyst recommends a BUY when our fair value estimate is at least 10% higher than the current share price.

**HOLD:** The analyst recommends a HOLD when our fair value estimate ranges within  $\pm 10\%$  of the current share price.

**SELL:** The analyst recommends a SELL when our fair value estimate is lower by more than 10% from the current share price.

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